

FOR RELEASE Sheffield Press, City of Sheffield, Iowa

Lines Murphy & Company, P. L. C., of Osage today released an audit report on the City of Sheffield, Iowa.

The City's receipts totaled \$975,367 for the year ended June 30, 2009, a 51 percent decrease from 2008. The receipts included \$352,843 in property tax, \$22,263 from charges for service, \$130,541 from operating grants, \$342,107 from Capital Grants, \$66,320 from local option sales tax, \$42,218 in miscellaneous revenues and \$16,733 in debt proceeds. The Sheffield Enterprise Funds receipts equaled \$331,029.

City disbursements for the year totaled \$781,869, a 62 percent decrease from the prior year, and included \$106,910 for public works, \$177,159 for public safety, \$143,410 for culture and recreation, \$234,677 for community and economic development, \$66,405 for general government and \$53,308 for debt service. Disbursements for the Sheffield Enterprise Funds totaled \$396,412, and included \$151,520 for debt service.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

**CITY OF SHEFFIELD
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2009

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City of Sheffield

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2009)		
Dennis Kingery	Mayor	Jan 2010
Jane Etnier	Mayor Pro tem	Jan 2012
Shirley Brady	Council Member	Jan 2010
Larry Olk	Council Member	Jan 2010
Ken Berding	Council Member	Jan 2012
Norene Schwierjohann	Council Member	Jan 2012
Debra Hartman	Clerk/Treasurer	Indefinite
Brent Symens	Attorney	Indefinite
(After January 2009)		
Dennis Kingery	Mayor	Jan 2010
Doug Dohlman	Mayor Pro tem	Jan 2012
Shirley Brady	Council Member	Jan 2010
Josh Wood	Council Member	Jan 2010
Ken Berding	Council Member	Jan 2012
Norene Schwierjohann	Council Member	Jan 2012
Debra Hartman	Clerk/Treasurer	Indefinite
Brent Symens	Attorney	Indefinite

City of Sheffield

L **INES MURPHY & COMPANY, P.L.C.**

M

Certified Public Accountants

625 Main St.

Osage, IA 50461-1307

Ph. 641-732-5841

Fax 641-732-5193

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sheffield's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities. The business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2009 on our consideration of the City of Sheffield's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 21 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sheffield's basic financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2008 (which are not presented herein) and expressed an unqualified opinion on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the four years ended June 30, 2007 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting.

Lines Murphy & Company P.L.L.C.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
October 21, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sheffield provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 50.5%, or approximately \$996,000, from fiscal 2008 to fiscal 2009. Capital grants increased approximately \$227,000 and bond proceeds decreased \$1,300,000.
- Disbursements of the City's governmental activities decreased 62.4%, or approximately \$1,298,000, in fiscal 2009 from fiscal 2008. Culture and recreation, debt service and capital projects disbursements decreased approximately \$57,000, \$105,000 and \$1,420,000, respectively.
- The City's total cash basis net assets increased 26.4%, or approximately \$128,000, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities increased approximately \$160,000 and the assets of the business type activities decreased by approximately \$32,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial

statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$234,000 to \$394,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2009	2008
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 22	25
Operating grants, contributions and restricted interest	131	163
Capital grants, contributions and restricted interest	342	115
General receipts:		
Property tax	353	280
Local option sales tax	66	61
Grants and contributions not restricted to specific purposes	-	-
Unrestricted investment earnings	2	4
Bond and note proceeds	17	1,317
Other general receipts	42	7
Total receipts	<u>975</u>	<u>1,972</u>
Disbursements:		
Public safety	177	143
Public works	107	83
Health and social services	-	-
Culture and recreation	143	201
Community and economic development	235	-
General government	66	75
Debt service	53	158
Capital projects	-	1,420
Total disbursements	<u>781</u>	<u>2,080</u>
Change in cash basis net assets before transfers	194	(108)
Transfers, net	<u>(34)</u>	<u>86</u>
Change in cash basis net assets	160	(22)
Cash basis net assets beginning of year	<u>234</u>	<u>256</u>
Cash basis net assets end of year	<u>\$ 394</u>	<u>234</u>

The City's total receipts for governmental activities decreased by 50.6%, or \$997,000. The total cost of all programs and services decreased approximately \$1,299,000, or 62.5%, with no new programs added this year. The significant decrease in receipts was primarily the result of proceeds received from issuing revenue notes for a wastewater treatment project in fiscal 2008.

The cost of all governmental activities this year was approximately \$781,000 compared to approximately \$2.080 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$286,000 because some of the cost was paid by those who directly benefited from the programs (\$22,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$473,000). Overall the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in 2009 from approximately \$303,000 to approximately \$495,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$419,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 92	92
Sewer	235	211
Capital grants, contributions and restricted interest	-	-
General receipts:		
Local option sales tax	-	-
Unrestricted interest on investments	4	4
Bond and loan proceeds	-	-
Other general receipts	-	4
Total receipts	<u>331</u>	<u>311</u>
Disbursements and transfers:		
Water	107	102
Sewer	290	127
Total disbursements	<u>397</u>	<u>229</u>
Change in cash basis net assets before transfers	(66)	82
Transfers, net	34	(86)
Increase (Decrease) in cash basis net assets	<u>(32)</u>	<u>(4)</u>
Cash basis net assets beginning of year	<u>251</u>	<u>255</u>
Cash basis net assets end of year	<u>\$ 219</u>	<u>\$ 251</u>

Total business type activities receipts for the fiscal year were \$331,000 compared to \$311,000 last year. The cash balance decreased by approximately \$32,000 from the prior year. Total disbursements for the fiscal year increased by 73.3% to a total of \$397,000. The significant increase was due primarily to repairs needed because of the flood of 2008.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sheffield completed the year, its governmental funds reported a combined fund balance of \$394,158, an increase of \$159,722 above last year's total of \$234,436. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$87,287 from the prior year to \$131,264. This increase was due mainly to FEMA monies received this fiscal year. The City intends to use these receipts to fund a storm sewer project.

- The Special Revenue, Road Use Tax Fund cash balance increased by \$18,528 to \$23,663 during the fiscal year.
- The Local Option Sales Tax Fund increased \$66,320 to \$110,365. The City intends to use this money for the lagoon project and upcoming street improvements.
- At the end of the fiscal year, the Tax Increment Financing Fund cash balance was \$53,588, a decrease of \$2,569 from the previous year.
- The Debt Service Fund cash balance decreased \$2,736 to \$14,102 during the fiscal year.
- During the fiscal year, the Block Grant Fund cash balance decreased \$3,902, as operating grants didn't cover scheduled disbursements.
- At the end of the fiscal year, the Employee Benefits Fund cash balance was \$6,490, a decrease of \$19,484 from the previous year due to increases in transfers.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$22,704 to \$78,937, due primarily to an increase in transfers.
- The Sewer Fund cash balance decreased by \$8,903 to \$140,431, due primarily to an increase in debt service.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on August 5, 2008 and resulted in an increase in operating disbursements of \$10,000 related primarily to the fire department budget carry over. The second amendment was approved on May 26, 2009 to provide for additional expenditures related to flooding, purchase of equipment and repairs to streets and swimming pool. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$53,035 more than budgeted. This was primarily due to the City receiving more in miscellaneous receipts and sewer and water charges for service than anticipated, even after the amendment.

Total disbursements were \$93,558 less than the amended budget. The City exceeded the amount budgeted in business type activities for the year ended June 30, 2009.

DEBT ADMINISTRATION

At June 30, 2009, the City had approximately \$1,699,000 in bonds and other long-term debt, compared to approximately \$1,822,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2009	2008
General obligation bonds	\$ 105	140
Revenue notes	1,477	1,538
Notes payable	117	144
Total	\$ 1,699	1,822

Debt decreased as a result of scheduled payments.

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and TIF debt of \$222,233 is significantly below its constitutional debt limit of \$2.54 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Sheffield's elected and appointed officials consider many factors when setting the fiscal year 2010 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deb Hartman, City Clerk, P.O. Box 252, City of Sheffield, Iowa 50475.

Basic Financial Statements

City of Sheffield

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 177,159	-	22,980	-
Public works	106,910	-	77,162	111,332
Health and social services	-	-	-	-
Culture and recreation	143,410	16,367	30,399	-
Community and economic development	234,677	650	-	230,775
General government	66,405	5,246	-	-
Debt service	53,308	-	-	-
Capital projects	-	-	-	-
Total governmental activities	<u>781,869</u>	<u>22,263</u>	<u>130,541</u>	<u>342,107</u>
Business type activities:				
Water	106,549	92,639	-	-
Sewer	289,863	234,841	-	-
Total business type activities	<u>396,412</u>	<u>327,480</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,178,281</u>	<u>349,743</u>	<u>130,541</u>	<u>342,107</u>
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Bond and note proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(154,179)	-	(154,179)
81,584	-	81,584
-	-	-
(96,644)	-	(96,644)
(3,252)	-	(3,252)
(61,159)	-	(61,159)
(53,308)	-	(53,308)
-	-	-
(286,958)	-	(286,958)
-	(13,910)	(13,910)
-	(55,022)	(55,022)
-	(68,932)	(68,932)
(286,958)	(68,932)	(355,890)
271,064	-	271,064
41,816	-	41,816
39,963	-	39,963
66,320	-	66,320
2,342	3,549	5,891
16,733	-	16,733
42,218	-	42,218
(33,776)	33,776	-
446,680	37,325	484,005
159,722	(31,607)	128,115
234,436	250,975	485,411
\$ 394,158	219,368	613,526
\$ 23,663	-	23,663
53,588	-	53,588
14,102	2,865	16,967
175,603	11,328	186,931
127,202	205,175	332,377
\$ 394,158	219,368	613,526

City of Sheffield

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2009

		Special	
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 231,219	-	-
Tax increment financing collections	-	-	-
Other city tax	5,246	-	66,320
Licenses and permits	1,955	-	-
Use of money and property	2,342	-	-
Intergovernmental	164,711	77,162	-
Charges for service	6,512	-	-
Special assessments	-	-	-
Miscellaneous	29,564	-	-
Total receipts	<u>441,549</u>	<u>77,162</u>	<u>66,320</u>
Disbursements:			
Operating:			
Public safety	153,384	-	-
Public works	44,128	58,634	-
Health and social services	-	-	-
Culture and recreation	133,508	-	-
Community and economic development	-	-	-
General government	62,651	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>393,671</u>	<u>58,634</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>47,878</u>	<u>18,528</u>	<u>66,320</u>
Other financing sources (uses):			
Bond & note proceeds	16,733	-	-
Operating transfers in	22,676	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>39,409</u>	<u>-</u>	<u>-</u>
Net change in cash balances	<u>87,287</u>	<u>18,528</u>	<u>66,320</u>
Cash balances beginning of year	43,977	5,135	44,045
Cash balances end of year	<u>\$ 131,264</u>	<u>23,663</u>	<u>110,365</u>
Cash Basis Fund Balances			
Restricted	\$ -	-	-
Reserved:			
Debt service	-	-	-
Unreserved:			
General fund	131,264	-	-
Special revenue funds	-	23,663	110,365
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	<u>\$ 131,264</u>	<u>23,663</u>	<u>110,365</u>

See notes to financial statements.

Exhibit B

Revenue					
Tax				Other	
Increment	Employee	Block	Debt	Nonmajor	
Financing	Benefits	Grant	Service	Governmental	Total
				Funds	
-	39,845	-	39,963	-	311,027
41,816	-	-	-	-	41,816
-	-	-	-	-	71,566
-	-	-	-	-	1,955
-	-	-	-	-	2,342
-	-	230,775	-	-	472,648
-	-	-	-	-	6,512
-	-	-	-	-	-
-	2,250	-	-	18,954	50,768
41,816	42,095	230,775	39,963	18,954	958,634
-	23,775	-	-	-	177,159
-	4,148	-	-	-	106,910
-	-	-	-	-	-
-	9,902	-	-	-	143,410
-	-	234,677	-	-	234,677
-	3,754	-	-	-	66,405
-	-	-	53,308	-	53,308
-	-	-	-	-	-
-	41,579	234,677	53,308	-	781,869
41,816	516	(3,902)	(13,345)	18,954	176,765
-	-	-	-	-	16,733
-	-	-	10,609	-	33,285
(44,385)	(20,000)	-	-	(2,676)	(67,061)
(44,385)	(20,000)	-	10,609	(2,676)	(17,043)
(2,569)	(19,484)	(3,902)	(2,736)	16,278	159,722
56,157	25,974	(160)	16,838	42,470	234,436
53,588	6,490	(4,062)	14,102	58,748	394,158
-	-	-	-	-	-
-	-	-	14,102	-	14,102
-	-	-	-	-	131,264
53,588	6,490	(4,062)	-	26,788	216,832
-	-	-	-	-	-
-	-	-	-	31,960	31,960
53,588	6,490	(4,062)	14,102	58,748	394,158

City of Sheffield

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2009

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 92,639	234,841	327,480
Miscellaneous	-	-	-
Total operating receipts	92,639	234,841	327,480
Operating disbursements:			
Business type activities	106,549	138,343	244,892
Excess (deficiency) of operating receipts over (under) operating disbursements	(13,910)	96,498	82,588
Non-operating receipts (disbursements):			
Intergovernmental	-	-	-
Interest on investments	1,815	1,734	3,549
Miscellaneous	-	-	-
General obligation bond proceeds	-	-	-
Debt service	-	(151,520)	(151,520)
Capital projects	-	-	-
Net non-operating receipts (disbursements)	1,815	(149,786)	(147,971)
Excess (deficiency) of receipts over (under) disbursements	(12,095)	(53,288)	(65,383)
Other financing sources (uses):			
Operating transfers in	-	44,385	44,385
Operating transfers out	(10,609)	-	(10,609)
Total other financings sources (uses)	(10,609)	44,385	33,776
Net change in cash balances	(22,704)	(8,903)	(31,607)
Cash balances beginning of year	101,641	149,334	250,975
Cash balances end of year	\$ 78,937	140,431	219,368
Cash Basis Fund Balances			
Reserved for debt service	\$ -	2,865	2,865
Reserved for water deposits	11,328	-	11,328
Unreserved	67,609	137,566	205,175
Total cash basis fund balances	\$ 78,937	140,431	219,368

See notes to financial statements.

City of Sheffield

Notes to Primary government Financial Statements

June 30, 2009

(1) **Summary of Significant Accounting Policies**

The City of Sheffield is a political subdivision of the State of Iowa located in Franklin County. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Sheffield has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Franklin County Assessor's Conference Board and Franklin County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax is used to account for the accumulation of local option sales tax collected by the State to be expended in accordance with statutory and local provisions.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Employee Benefits fund is used to account for property taxes levied for employee benefits.

The Block Grant Fund is used to account for the housing rehabilitation project.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Sheffield maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amount budgeted in Business Type Activities.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 35,000	5,775	63,000	44,310	98,000	50,085
2011	35,000	3,850	65,000	42,420	100,000	46,270
2012	35,000	1,925	67,000	40,470	102,000	42,395
2013	-	-	69,000	38,460	69,000	38,460
2014	-	-	71,000	36,390	71,000	36,390
2015-2019	-	-	388,000	148,710	388,000	148,710
2020-2024	-	-	451,000	86,880	451,000	86,880
2025-2029	-	-	303,000	18,360	303,000	18,360
Total	\$ 105,000	11,550	1,477,000	456,000	1,582,000	467,550

The resolutions providing for the issuance of the general obligation bonds include the following provision.

- (a) At the option of the City, the essential corporate purpose bonds issue of April 1, 2001 are subject to redemption and prepayment on any date, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot, at a price of par plus accrued interest to call date, by giving proper notice.

The resolution providing for the issuance of the sewer revenue notes include the following provision:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate sewer revenue note sinking accounts within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- (c) At the option of the City, the Revenue Bond shall be subject to optional redemption at a price of par plus accrued interest (i) on any interest payment date after the ten (10) year anniversary of the bond issue date.

The City has also entered into the following loan agreements with the United Bank and Trust Company, Sheffield, Iowa:

<u>Date of Loan</u>	<u>3-29-06</u>	<u>11-19-07</u>
Original amount	\$30,000	\$134,000
Interest rate	6.0%	5.0%
Payment dates	Annual	Annual
Payment amount	\$10,000 plus interest	\$33,500 plus interest
Maturity date	4-01-09	12-01-11
Number of payments remaining	0	3
Outstanding balance	\$0	\$100,500

<u>Date of Loan</u>	<u>03-30-09</u>
Original amount	\$16,733
Interest rate	4.25%
Payment dates	Annual
Payment amount	\$8,913
Maturity date	4-01-11
Number of payments remaining	2
Outstanding balance	\$16,733

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$16,927, \$15,177 and \$15,154, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$2,897

This liability has been computed based on rates of pay in effect at June 30, 2009.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Police Seizure	\$ 2,676
	Employee Benefits	<u>20,000</u>
		22,676
Enterprise:	Special Revenue:	
Sewer	TIF	<u>44,385</u>
Debt Service	Enterprise:	
	Water	<u>10,609</u>
Total		<u>\$ 187,670</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Construction Commitment

As of June 30, 2009, the City had \$35,364 in construction commitments.

(9) Cemetery Commitment

The City has a cemetery maintenance contract. The remaining commitment due on the contract is \$14,736.

(10) Deficit Balance

The Special Revenue, Block Grant Fund had a deficit balance of \$4,062 at June 30, 2009. The deficit will be eliminated by transfers.

(11) Subsequent Events

On August 12, 2009, the City obtained a loan for \$105,000 to purchase a fire truck. Actual cost of fire truck was \$123,234. The City sold a pumper truck and an equipment van for \$8,500 and intend to put those funds towards the loan.

Required Supplementary Information

City of Sheffield
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 311,027	-	-
Tax increment financing collections	41,816	-	-
Other city tax	71,566	-	-
Licenses and permits	1,955	-	-
Use of money and property	2,342	3,549	-
Intergovernmental	472,648	-	-
Charges for service	6,512	327,480	-
Special assessments	-	-	-
Miscellaneous	50,768	-	-
Total receipts	<u>958,634</u>	<u>331,029</u>	<u>-</u>
Disbursements:			
Public safety	177,159	-	-
Public works	106,910	-	-
Health and social services	-	-	-
Culture and recreation	143,410	-	-
Community and economic development	234,677	-	-
General government	66,405	-	-
Debt service	53,308	-	-
Capital projects	-	-	-
Business type activities	-	396,412	-
Total disbursements	<u>781,869</u>	<u>396,412</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	176,765	(65,383)	-
Other financing sources (uses), net	<u>(17,043)</u>	<u>33,776</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	159,722	(31,607)	-
Balances beginning of year	<u>234,436</u>	<u>250,975</u>	<u>-</u>
Balances end of year	<u>\$ 394,158</u>	<u>219,368</u>	<u>-</u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
311,027	300,332	300,332	10,695
41,816	40,535	40,535	1,281
71,566	73,184	73,184	(1,618)
1,955	1,525	1,525	430
5,891	3,800	3,800	2,091
472,648	125,527	483,852	(11,204)
333,992	309,000	309,000	24,992
-	-	-	-
50,768	20,500	24,400	26,368
1,289,663	874,403	1,236,628	53,035
177,159	151,000	322,000	144,841
106,910	104,550	196,050	89,140
-	-	-	-
143,410	141,561	174,061	30,651
234,677	-	250,000	15,323
66,405	57,495	70,495	4,090
53,308	203,533	93,533	40,225
-	-	-	-
396,412	226,511	165,700	(230,712)
1,178,281	884,650	1,271,839	93,558
111,382	(10,247)	(35,211)	146,593
16,733	-	389,720	(372,987)
128,115	(10,247)	354,509	(226,394)
485,411	428,961	428,961	56,450
613,526	418,714	783,470	(169,944)

City of Sheffield

City of Sheffield

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted receipts by \$362,225 and budgeted disbursements by \$387,189. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amount budgeted in Business Type Activities.

City of Sheffield

Statement of Cash Receipts, Disbursements and Changes in
Cash Balances Nonmajor Governmental Funds

As of and for the year ended June 30, 2009

	Special	
	Handicap Access	Swimming Pool Improvements
Receipts:		
Property tax	\$ -	-
Tax increment financing	-	-
Other city tax	-	-
License and permits	-	-
Use of money and property	-	-
Intergovernmental	-	-
Charges for service	-	-
Special assessments	-	-
Miscellaneous	-	-
Total receipts	-	-
Disbursements:		
Operating:		
Public safety	-	-
Public works	-	-
Health and social services	-	-
Culture and recreation	-	-
Community and economic development	-	-
General Government	-	-
Debt service	-	-
Capital projects	-	-
Total disbursements	-	-
Excess (deficiency) of receipts over (under) disbursements	-	-
Other financing sources (uses):		
Bond & note proceeds	-	-
Operating transfers in	-	-
Operating transfers out	-	-
Total other financing sources (uses)	-	-
Net change in cash balances	-	-
Cash balances beginning of year	1,500	13,357
Cash balances end of year	\$ 1,500	13,357
Cash Basis Fund Balances		
Restricted	\$ -	-
Unreserved:		
Special revenue funds	1,500	13,357
Capital project fund	-	-
Permanent fund	-	-
Total cash basis fund balances	\$ 1,500	13,357

See accompanying independent auditors' report.

Schedule 1

Revenue		Permanent	
Police Seizure	Veterans Memorial Fund	Cemetery Perpetual Care	Total
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
10,404	-	8,550	18,954
10,404	-	8,550	18,954
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
10,404	-	8,550	18,954
-	-	-	-
-	-	-	-
(2,676)	-	-	(2,676)
(2,676)	-	-	(2,676)
7,728	-	8,550	16,278
-	4,203	23,410	42,470
7,728	4,203	31,960	58,748
-	-	-	-
7,728	4,203	-	26,788
-	-	-	-
-	-	31,960	31,960
7,728	4,203	31,960	58,748

City of Sheffield
Schedule of Indebtedness
Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds:			
2001 Essential Corporate Purpose	04/01/01	5.50%	\$ 310,000
General Obligation Notes Payable:			
Water Meters	03/18/06	6.00%	\$ 30,000
Sewer Project Cost Overrun	11/19/07	5.00%	134,000
Police Car	03/30/09	4.25%	16,733
Total			
Revenue Notes:			
Sewer	02/08/07	3.00%	\$ 1,600,000

See accompanying independent auditors' report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
<u>140,000</u>	<u>-</u>	<u>35,000</u>	<u>105,000</u>	<u>7,700</u>	<u>-</u>
10,000	-	10,000	-	608	-
134,000	-	33,500	100,500	7,035	-
	16,733	-	16,733	-	
<u>\$ 144,000</u>	<u>16,733</u>	<u>43,500</u>	<u>117,233</u>	<u>7,643</u>	<u>-</u>
<u>1,538,000</u>	<u>-</u>	<u>61,000</u>	<u>1,477,000</u>	<u>46,140</u>	<u>-</u>

City of Sheffield

Bond and Note Maturities

June 30, 2009

Year Ending June 30,	General Obligation Bonds		General Obligation Notes Payable				
	2001 Essential Corporate Purpose		Sewer Project Cost Overrun		Police Car		
	Issued April 1, 2001		Issued November 19, 2007		Issued March 30, 2009		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2010	5.50%	\$ 35,000	5.00%	\$ 33,500	4.25%	\$ 8,202	\$ 41,702
2011	5.50%	35,000	5.00%	33,500	4.25%	8,531	42,031
2012	5.50%	35,000	5.00%	33,500			33,500
Total		<u>\$ 105,000</u>		<u>\$ 100,500</u>		<u>\$ 16,733</u>	<u>\$ 117,233</u>

Year Ending June 30,	Revenue Notes	
	Sewer	
	Issued February 8, 2007	
	Interest Rates	Amount
2010	3.00%	\$ 63,000
2011	3.00%	65,000
2012	3.00%	67,000
2013	3.00%	69,000
2014	3.00%	71,000
2015	3.00%	73,000
2016	3.00%	75,000
2017	3.00%	78,000
2018	3.00%	80,000
2019	3.00%	82,000
2020	3.00%	85,000
2021	3.00%	87,000
2022	3.00%	90,000
2023	3.00%	93,000
2024	3.00%	96,000
2025	3.00%	98,000
2026	3.00%	101,000
2027	3.00%	104,000
Total		<u>\$ 1,477,000</u>

See accompanying independent auditors' report.

Schedule 4

City of Sheffield

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Six Years

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts:						
Property tax	\$ 311,027	\$ 280,024	\$ 274,822	\$ 290,475	\$ 206,654	\$ 234,816
Tax increment financing collections	41,816	-	187	30,821	100,009	57,913
Other city tax	71,566	65,868	40,098	26,772	24,780	21,886
Licenses and permits	1,955	3,165	1,545	2,535	2,205	2,065
Use of money and property	2,342	3,792	4,488	5,212	2,791	3,581
Intergovernmental	472,648	237,796	243,478	215,761	115,255	113,452
Charges for service	6,512	13,136	25,802	31,121	27,596	27,392
Special assessments	-	-	-	-	-	-
Miscellaneous	50,768	51,834	22,789	48,674	21,004	35,120
Total	<u>\$ 958,634</u>	<u>\$ 655,615</u>	<u>\$ 613,209</u>	<u>\$ 651,371</u>	<u>\$ 500,294</u>	<u>\$ 496,225</u>
Disbursements:						
Operating:						
Public safety	\$ 177,159	\$ 142,758	\$ 140,155	\$ 182,360	\$ 109,662	\$ 144,562
Public works	106,910	82,674	136,165	306,928	94,125	96,602
Health and social services	-	-	-	-	-	-
Culture and recreation	143,410	200,844	159,073	173,147	157,783	152,616
Community and economic development	234,677	-	-	115,125	-	-
General government	66,405	75,462	53,568	53,630	55,496	52,927
Debt service	53,308	158,385	41,000	166,362	67,700	59,675
Capital projects	-	1,420,066	649,077	-	-	-
Total	<u>\$ 781,869</u>	<u>\$ 2,080,189</u>	<u>\$ 1,179,038</u>	<u>\$ 997,552</u>	<u>\$ 484,766</u>	<u>\$ 506,382</u>

See accompanying independent auditors' report.

City of Sheffield

L **INES MURPHY & COMPANY, P.L.C.**

M

Certified Public Accountants
625 Main St.
Osage, IA 50461-1307

Ph. 641-732-5841
Fax 641-732-5193

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 21, 2009. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Sheffield's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the primary government financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Sheffield's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sheffield's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Sheffield's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Sheffield's financial statements that is more than inconsequential will not be prevented or detected by the City of Sheffield's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Sheffield's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-09, II-B-09, II-C-09 and II-E-09 are material weaknesses.

Compliance and Other Matters

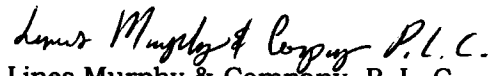
As part of obtaining reasonable assurance about whether the City of Sheffield's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Sheffield's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Sheffield's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sheffield and other parties to whom the City of Sheffield may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sheffield during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
October 21, 2009

City of Sheffield

Schedule of Findings

Year ended June 30, 2009

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Sheffield

Schedule of Findings

Year ended June 30, 2009

Part II: Findings Related to the Primary Government Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-09 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-09 Posting of Financial Transactions – Receipts and disbursements were not always posted to the correct account. In addition, \$5,523 of receipts from Local Option Sales Tax and \$10,404 of receipts from police seizure monies were never posted to the General Ledger. Entries were posted to the prior fiscal year, causing the beginning cash balances to change. Further, transfers in are not balanced to transfers out on a monthly basis. We noted an \$11,000 transfer out for which there was no transfer in. Adjustments were made and the financial statements reflect the correct amounts.

Recommendation – More care should be exercised when posting transactions to reduce the incidence of mispostings. Further, the accounts should be reconciled on a timely basis to identify errors made.

Response – In the future, more care will be exercised when posting transactions and the accounts will be properly reconciled.

Conclusion – Response accepted.

City of Sheffield

Schedule of Findings

Year ended June 30, 2009

- II-C-09 City Financial Management Information - Monthly bank reconciliations are not (including a list of outstanding checks) reconciled to the book balance.

Recommendation - A monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month and retained.

Response - The City will establish a system to reconcile cash and present it to the Council.

Conclusion - Response accepted.

- II-D-09 Checks - We noted numerous check numbers per the General Ledger that do not agree with the actual check number. It appears that this was caused by improperly loading the checks.

Recommendation - The City should take more care when loading the checks.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

- II-E-09 Invoices - Invoices were not properly cancelled to prevent reuse.

Recommendation - Checks should be prepared only from invoices, and the City should mark invoices "paid" to prevent duplicate payments from occurring.

Response - We will do so in the future.

Conclusion - Response accepted.

City of Sheffield

Schedule of Findings

Year ended June 30, 2009

Part III: Other Findings Related to Statutory Reporting:

III-A-09 Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amount budgeted in the Business Type Activities. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” In addition, the budgeted business type activities and transfers out did not carry forward correctly to the second amendment of the budget resulting in budgeted disbursements being exceeded within those funds.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also, more care should be followed when preparing the budget amendments.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-09 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

III-C-09 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-09 Business Transactions – No business transactions between the City and City officials or employees were noted.

III-E-09 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-09 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy was noted.

III-H-09 Revenue Bonds and Notes – The resolution providing for the issuance of the 2007 Sewer Revenue notes requires that monthly transfers shall be made to separate sewer revenue note sinking reserve within the Enterprise Fund until the minimum required balance is met. This account is below the minimum required balance at June 30, 2009.

Recommendation – The City should make the necessary transfers to bring the sewer revenue sinking reserve to the required balance.

City of Sheffield

Schedule of Findings

Year ended June 30, 2009

Response – We will comply with this recommendation.

Conclusion – Response accepted.

III-I-09 Financial Condition – The Special Revenue Block Grant Fund had a deficit balance at June 30, 2009 of \$4,062.

Recommendation – The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

Response – The deficit balance will be eliminated.

Conclusion – Response accepted.

III-J-09 Authorized Check Signers – A former council member has not been removed as authorized check signers per the Bank Signature Cards.

Recommendation – The City should update the bank with those authorized to sign checks.

Response – We will do so.

Conclusion – Response accepted.

III-K-09 Payroll – A former council member did not fill out a W-4 before retiring as council member.

Recommendation – The City should not pay employees or board members without a W-4 on file.

Response – We will do so.

Conclusion – Response accepted.